



DTE Energy®

Comments in Support of Senate Bill 437

Steve Kurmas
President & Chief Operating Officer

September 24, 2015



Good afternoon, Chairman Nofs, Vice-Chairman Proos, Vice Chairman Hopgood, and members of the Committee. My name is Steve Kurmas, and I am the President and Chief Operating Officer of DTE Energy. Thank you for the opportunity to testify here today in support of Senate Bill 437. I want to commend your commitment to Michigan's energy future and your thorough review of policy options over the past year. A policy focused on reliable, affordable and clean energy is vital to Michigan's future.

Michigan has enjoyed the benefits of the reliable electric capacity that our fleet has offered over the past several decades. Today, you are tasked with deciding how the state will ensure a reliable electric supply to support our families, our manufacturers, and our job providers. Over the next decade the state will retire 60 percent of its coal fired generation due to old age and federal regulations. We cannot delay policy decisions given the scale and pace of these retirements. It takes five years to build a new baseload power plant. The time to start building Michigan's energy future is now.

Integrated Resource Planning

I would like first to discuss what this means for generation planning and the importance of an agile, transparent integrated resource planning process for Michigan.

In 2008, Michigan adopted Public Act 295 – comprehensive, bipartisan energy legislation that set the 10-percent renewable energy standard and annual energy efficiency targets. We, and many of you here who served at the time, supported this legislation. It was an important step to kick-start Michigan's experience with clean energy technology, and that is exactly what happened. I am proud to say we will surpass the renewable energy standard this year and have been exceeding the energy efficiency targets every year. Going forward, both energy efficiency and renewable energy will be an important part of our resource mix as we retire generation and work to meet Michigan's future energy needs.

The integrated resource plan, or IRP, proposed in this legislation will ready Michigan for a clean, affordable and reliable energy future in a number of ways. First, it will ensure a timely review by all stakeholders of new technologies as they evolve. Second, it will ensure a diversified energy portfolio is maintained. Third, it will allow Michigan to adapt to changing federal regulations. And finally, and most importantly, it will ensure fair prices for Michigan's families and businesses. We understand how important this is.

Michigan's utilities will be required to submit thorough plans that detail how we will provide high-quality, cost-effective local generation. We must also demonstrate that the proposed options are the best options for the state. If the utilities' plans call for the build of new generation, the fuel, capital, engineering, procurement, and construction of that facility will be competitively sourced.

When a utility builds a facility, the process is very similar to that of any other manufacturing enterprise. We, and manufacturers alike, must ensure the asset is the most cost effective and highest-quality facility, and that facility must provide the best possible value for customers.

All of this will be transparent. If the Michigan Public Service Commission, after conducting a comprehensive review, deems those plans to not be in the best interest of Michigan's citizens, the utilities must present a new plan.

Utilities have traditionally conducted integrated resource plans internally. This evaluation is complex and analyzes various scenarios, accounting for technology and fuel costs, emissions, forecasted load and economic growth to name a few. While utilities will continue to conduct internal integrated resource plans, the framework presented in Senate Bill 437 would allow the state to adopt a holistic approach to resource planning and understand what the state's energy mix will be as we meet federal regulations.

Senate Bill 437 takes all of this into consideration by proposing an agile, transparent, and competitive IRP.

Retail Open Access & Responsible Regulation Provisions

I would now like to focus on the most pressing challenge in securing Michigan's energy future . . . the current hybrid regulatory structure which allows for 10 percent of our state's electric load to be purchased through the Retail Open Access program. Retail energy marketers, who supply retail access customers, have historically relied on excess capacity in the market to meet their requirements. However, as plants retire the excess capacity will disappear while the needs of their customers will not.

This is not something that will just affect the 10 percent. This poses problems for all of Michigan's families and businesses, because our critical electric infrastructure is interconnected. It is clear that new electric capacity needs to be built in our state. However, it is unclear who will commit to building capacity for that 10 percent of the market.

As I testified in April of this year before the House Energy Policy Committee, a fully regulated market is the most effective policy option to ensure long-term reliability for our state. Full regulation has proven time and again to support critical electric infrastructure, allocate costs fairly, and provide customers with stable, regulated rates.

However, there are provisions in Senate Bill 437 that will address the fundamental issues with the current retail access program. While there are many aspects proposed in this bill, I will be focusing on two – the one-time election provisions and reliability requirements.

Senate Bill 437 maintains the 10-percent cap, but addresses the fundamental challenges to fairness with the current Retail Access program. The one-time election and return to service provisions are important components of this bill. These provisions establish clarity in terms of who is planning for the long-term needs of all electric customers in Michigan.

Senate Bill 437 places a heavy emphasis on reliability for Michigan's energy future by holding alternative energy suppliers in the state accountable for firm, physical capacity as a condition of licensure. If action needs to be taken as plants retire and excess capacity disappears, this provisions allows sufficient time to plan for the needs of all electric customers in Michigan.

Utilities already go beyond these provisions and, under the IRP proposal, will submit those plans for a 15-year outlook. Requiring alternative energy suppliers to demonstrate firm, physical capacity for their customers in the near-term is a minimum requirement to ensure reliable supply for the state.

Due to transmission system design, and import and export limitations, there needs to be a sufficient amount of resources within each MISO generation capacity zone to ensure adequate energy reliability. This Committee has worked closely with the Midcontinent Independent System Operator, or MISO, to develop provisions to ensure that electricity is available to meet in-state resource requirements.

MISO recognizes that local generation is needed for electric reliability. This is why MISO sets local generation requirements for each capacity zone. The most straightforward method for states to ensure reliability is to require capacity is located in the same zone as the load served. Michigan's utilities are responsible to ensure that reliable supply is always there for their customers. Alternative energy suppliers should be held responsible as well. They have options – build their own generation; enter into bi-lateral agreements with existing generators; or execute an auction for multi-year generation capacity.

Those opposed to these provisions will argue broadly that this proposal "kills competition." However, the current Retail Access program does not provide competition in Michigan. It is, in fact, a cost re-allocation program, or subsidy, created by a faulty hybrid regulatory model.

Last week, Dr. Larry Makovich testified that Michigan's electric consumers, your constituents, are paying a \$300 million subsidy each year for retail open access. If we don't address the status quo manufacturers, small businesses, and residential electric consumers will be paying more for less reliable electric service.

Senate Bill 437 assures that Michigan customers receive fair and reliable service while maintaining the 10-percent cap. Additionally, the bill sets licensing provisions that are consistent with existing MISO regulations. The proposed requirements place reasonable regulations on licensing to offer a critical service to customers in Michigan. Michigan has every right to enact laws that address the State's energy needs and support the infrastructure necessary for its citizens. The licensing requirements for retail marketers have existed since the enactment of PA 141 in 2000 and would be expanded to include elements necessary to secure fair and reliable electric service in Michigan.

At the end of the day, all of this boils down to one critical point – Michigan needs a reliable electric supply for all customers. Our state has come a long way in recent years. Since 2009, Michigan has added over 407,800 jobs to our economy, and we have led the nation for the fourth year in a row in the creation of new manufacturing jobs. We should all be proud of the hard working men and women who have made this economic recovery possible. Michigan simply cannot be competitive and expect to grow its economy if it cannot support its families and businesses with a stable, reliable electric supply far into the future.

On behalf of DTE Energy, I want to thank you again for your continued commitment to Michigan and the state's energy future. Michigan is at a critical crossroad in determining how our families and businesses will access electricity for the next several decades. It is an honor to be able to participate in this ongoing dialogue. I look forward to answering any questions you may have.

